The determination of the fair value of MSRs and IOs at their initial recording and on an ongoing basis requires considerable management judgment. Unlike U.S. Treasury and agency mortgage-backed securities, the fair value of MSRs and IOs cannot be determined with precision because they are not traded in active securities markets. For MSRs, Doral Financial determines their initial fair value on the basis of prices paid for comparable mortgage-servicing rights. Doral Financial also receives, on a quarterly basis, a third party valuation of its MSRs related to its FNMA, FHLMC and GNMA servicing portfolio. The third party valuation combines the use of a discounted cash flow model and the Company's specific economic and portfolio behavior assumptions. The analysis is run at a detailed level of stratification – 50 basis point note rate bands, by product type within investor remittance type. During 2004 and 2003, the market prices used to value Doral Financial's MSRs varied from 1.40% to 2.30% of the principal amount of the loans subject to the servicing rights, with servicing rights for GNMA mortgage-backed securities (backed by FHA/VA loans) having higher values than comparable servicing rights for conventional loans. The unamortized balance of Doral Financial's servicing assets reflected in Doral Financial's Consolidated Statements of Financial Condition as of December 31, 2004, 2003 and 2002, was $203.2 million, $167.5 million and $159.9 million, respectively. For additional information regarding the unamortized balance of Doral Financial's servicing assets and amortization for the year ended December 31, 2004, 2003 and 2002, please refer to Note 12 to Doral Financial's Consolidated Financial Statements.

To determine the fair value of its IO portfolio, Doral Financial engages in two external valuations with parties independent of the Company and of each other. One of them consists of dealer market quotes for similar instruments and the other one consists of a cash flow valuation model in which all economic and portfolio assumptions are determined by the preparer. In addition to these two independent valuations, the Company prepares an internal, static cash flow model that incorporates internally generated prepayment and discount rate assumptions and an expected retained interest rate spread based on 3-month LIBOR rates at the close of the reporting period. As of December 31, 2004, the 3-month LIBOR rate used in the internal valuation model was higher than those contracted with investors for payment prior to the next resetting dates. It is Doral Financial's policy to record as the fair value of the IOs the lowest of the three valuation sources.

Discount, mortgage prepayment and LIBOR rates change from quarter to quarter as market conditions and projected interest rates change. The cash flow and prepayment assumptions used in the internal valuation are drawn from historical performance of its retained interests and market data available, which Doral Financial believes is consistent with assumptions used by independent parties in valuating retained interests.

While Doral Financial has sold some IOs in private sales, currently there is no liquid market for the purchase and sale of IOs. The market multiple used by Doral Financial for the initial value of its IOs ranged from 4.95 to 5.50 during 2004, compared to a range of 4.75 to 5.50 during 2003. As of December 31, 2004 and 2003, the carrying value of IOs reflected in the Consolidated Statements of Financial Condition was $878.7 million and $578.1 million, respectively. The initial recorded value of IOs is amortized over the expected life of the asset. The amortization is based on the amount and timing of estimated future cash flows to be received with respect to IOs. For additional information regarding the carrying value of Doral Financial's IOs and amortization for the year ended December 31, 2004, 2003 and 2002, please refer to Note 13 to Doral Financial's Consolidated Financial Statements.

The value of Doral Financial's MSRs and IOs is very sensitive to interest rate changes. Once recorded, Doral Financial periodically evaluates its MSRs for impairment. Impairment is defined generally as a reduction in the current fair value below the carrying value. If the MSRs are impaired, the impairment is recognized in current period earnings and the carrying value is adjusted through a valuation allowance. Prior to July 1, 2002, Doral Financial recorded impairment charges as a direct write-down of servicing assets. The valuation allowance is adjusted to reflect the amount, if any, by which the cost basis of MSRs exceeds their fair value. If the value of MSRs subsequently increases, the recovery in value is recognized in current period earnings and the carrying value of the MSRs is adjusted through a reduction in the valuation allowance. Other-than-temporary impairment continues to be recognized as a direct write-down of the servicing assets and the valuation allowance is applied to reduce the MSR cost-basis. MSRs cannot be carried above their amortized cost-basis. As of December 31, 2004 and 2003, the impairment allowance for MSRs was $7.9 million and $11.4 million, respectively. In the case of MSRs, Doral Financial stratifies the mortgage loans underlying a mortgage loan pool or mortgage-backed security on the basis of their predominant risk characteristics, which Doral Financial has determined to be type of loan (government-guaranteed, conventional, conforming and non-conforming) and interest rates. Doral Financial measures MSR impairment by estimating the fair value of each stratum.

MSRs are also subject to periodic amortization which is based on the amount and timing of estimated cash flows to be recovered with respect to the MSRs over their expected lives. To the extent changes in interest rates or prepayment rates

warrant, Doral Financial will increase or decrease the level of amortization. Amortization of MSRs is recorded as a reduction of servicing income. For impairment and valuation purposes, Doral Financial continually monitors changes in interest rates to determine whether the assumptions used to value its MSRs and IOs are still appropriate in light of market conditions. It also attempts to corroborate the values assigned to these assets through the use of internal valuation models that incorporate assumptions regarding the direction of interest rates and mortgage prepayment rates. The reasonableness of management's assumptions is corroborated through valuations performed by independent third parties on a quarterly basis.

As discussed above, changes in the fair value of IOs are recognized in current earnings as a component of net gain (loss) on securities held for trading.

The following table shows the value sensitivity of Doral Financial's MSRs and IOs to the key assumptions used by Doral Financial to determine their fair values at December 31, 2004:

(Dollars in thousands)		MSRs		IOs
Carrying amount of retained interest	$	203,245	$	878,732
Weighted-average remaining life (in years)		7		8
Constant prepayment rate (annual rate)		9.45%		7.20%
Impact on fair value of 10% adverse change	$	5,984	$	24,134
Impact on fair value of 20% adverse change	$	11,590	$	45,785
Residual cash flow discount rate (annual)		9.70%		7.63%
Impact on fair value of 10% adverse change	$	7,853	$	31,111
Impact on fair value of 20% adverse change	$	15,175	$	60,354

These sensitivities are hypothetical and should be considered with caution. This information is furnished to provide the reader with a basis for assessing the sensitivity of the values presented to changes in key assumptions. As the figures indicate, changes in fair value based on a 10% variation in individual assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, in these tables, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increase in market rates could result in lower prepayments), which may magnify or counteract the sensitivities on the values presented. Refer to Page 40 for additional information on the prepayment activity of IOs.

The following table summarizes the estimated change in the fair value of the Company's IOs, net of embedded caps, given several hypothetical increases in the 3-month LIBOR and assumes no changes in the prepayment speeds.

	Changes in Fair Value of IOs			
Change in 3-month LIBOR (basis points)	+25	+50	+100	+200
Change in fair value of IOs	$ (69.9) million	$ (138.8) million	$ (274.7) million	$ (542.2) million

The following table summarizes, as of December 31, 2004, the estimated change in the fair value of the Company's securities held for trading (other than IOs), including derivative instruments that Doral Financial uses to manage its interest rate risk given several increases in the Treasury yield curve. Since December 31, 2004, the Company has entered into new derivative instruments to protect the value of its IOs.

	Changes in Fair Value			
Change in Treasury yield curve (basis points)	+25	+50	+100	+200
Change in fair value related to securities held for trading and derivative instruments	$ 33.9 million	$ 76.3 million	$ 187.1 million	$ 512.0 million

The analysis in the previous tables is limited in that it was performed at a particular point in time, assuming an instantaneous and parallel shift in the yield curve, and does not incorporate changes in other factors that could impact the fair value of the securities held for trading and derivatives. Further, it should be used with caution, as changes in the yield curve are gradual and not necessarily parallel. For additional information on the Company's hedging strategy regarding its variable rate IOs, refer to "Interest Rate Risk Management."

Doral Financial reviews all major valuation assumptions periodically using recent empirical and market data available, and makes adjustments when warranted.

Increases in prepayment rates over anticipated levels used in calculating the value of IOs and MSRs can adversely affect Doral Financial's revenues by increasing the amortization rates for servicing assets and IOs, as well as requiring Doral Financial to recognize an impairment against income over and above scheduled amortization.

Doral Financial's MSR and IO portfolios have different composition. The MSR portfolio is related to FHA/VA (22%), conventional conforming (30%) and non-conforming (48%) mortgage loans. The IO portfolio is related almost exclusively to non-conforming mortgage loans that generally have low balances, lower loan-to-value ratios, insignificant historical charge-offs and slower prepayment rates. The difference in prepayment speeds is primarily due to prepayment penalties associated exclusively to non-conforming loans. Other activities that help reduce prepayments include the adoption of special internal measures such as loan modifications that reduce borrowers' monthly payments by extending the terms of the loans and granting second mortgages in lieu of refinancing cash-outs. The discount rate assumed in valuing the IOs reflects the expected yield on the IOs determined based on a relevant mortgage rate index plus a risk premium.

Valuation of Trading Securities and Derivatives

Doral Financial's net gain (loss) on securities held for trading include gains and losses, whether realized or unrealized, on securities accounted for as held for trading, including IOs, as well as the various financial instruments, including derivative contracts that Doral Financial uses to manage its interest rate risk. Securities held for trading and derivatives are recorded at fair values with increases or decreases in such values reflected in current earnings as part of trading profits or losses. The fair value of many of Doral Financial's trading securities (other than IOs) and derivative instruments is based on dealer quotations from recognized markets and, as such, does not require significant management judgment. For instruments not traded on a recognized market, Doral Financial generally determines fair value by reference to quoted market prices for similar instruments.

As of December 31, 2004, Doral Financial held $266.4 million in tax-exempt GNMA securities included in its securities-held-for-trading portfolio. Because of their preferential tax status, these securities cannot be valued directly by reference to market quotations for U.S. GNMA securities with similar characteristics. Doral Financial determines the fair value of its portfolio of tax-exempt GNMA securities, based on quotations received by Puerto Rico broker-dealers.

Set forth below is a summary of Doral Financial's sources of fair value for its investment securities, held in the securities held-for-trading, available-for-sale, and held-to-maturity portfolios as well as its derivatives and retained interests as of December 31, 2004:

	Carrying Amount			
(In thousands)	Prices Actively Quoted	Prices Provided By Other External Sources	Internal Valuation Models	External Valuation Models
Tax-exempt GNMAs	$ –	$ 268,830	$ –	$ –
Collateralized mortgage obligations (CMOs)	–	30,177	–	–
Puerto Rico government obligations	–	27,924	–	–
Mortgage-backed and U.S. Treasury and agency securities	7,031,939	290,751	–	–
Derivatives instruments	(6,526)	12,948	–	–
Other investment securities	–	97	–	–
IOs	–	–	878,732	–
MSRs	–	–	–	203,245
	$ 7,025,413	$ 630,727	$ 878,732	$ 203,245

Other Income Recognition Policies

Interest income from IOs is recognized on Doral Financial's Consolidated Statements of Income in an amount equal to the cash received from the IOs less the amortization of the recorded value of the IOs. The amortization of the IOs is determined using a method that results in an approximate level rate of return on the IOs. The rate of return on the IOs is adjusted periodically to reflect changes in expected cash flows on these instruments. As discussed previously, the contractual pass-through rate payable to investors on certain IOs is variable. Accordingly, interest income recognized on these IOs will vary from period to period.

Interest income on loans is accrued by Doral Financial when earned. Loans held in Doral Financial's banking subsidiaries are placed on a non-accrual basis when any portion of principal or interest is more than 90 days past due, or earlier if concern exists as to the ultimate collectibility of principal or interest. Conventional mortgage loans held for sale by Doral Financial's mortgage banking units are placed on a non-accrual basis after they have been delinquent for more than 180 days to the extent concern exists as to the ultimate collectibility based on the loan-to-value ratio. When a loan is placed on non-accrual status, all accrued but unpaid interest to date is fully reversed.

Loan origination fees, as well as discount points and certain direct origination costs for mortgage loans held for sale, are initially recorded as an adjustment to the cost of the loan and reflected in Doral Financial's earnings when the loan is sold or securitized into a mortgage-backed security. In the case of loans receivable held for investment, such fees and costs are deferred and amortized to income as adjustments to the yield of the loan.

Allowance for Loan Losses

Doral Financial maintains an allowance for loan losses to absorb probable loan losses. The allowance is maintained at a level that Doral Financial considers to be adequate to absorb losses based on a number of factors, including historical loss experience, current delinquency rates, known and inherent risks in the loan portfolio, an assessment of individual problem loans, the estimated value of underlying collateral and an assessment of current economic conditions. Credit losses are charged and recoveries are credited to the allowance, while increases to the allowance are charged to operations. Unanticipated increases in the allowance for loan losses could adversely impact Doral Financial's net income in the future.

Commercial and construction loans over $2.0 million are evaluated individually for impairment. Doral Financial measures impairment of a loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral, if the loan is collateral dependent. Loans are considered impaired when, based on management's evaluation, a borrower will not be able to fulfill its obligation under the original terms of the loan. Loans that are measured at the lower of cost or fair value are excluded. Doral Financial performs impairment evaluations of small-balance homogeneous loans on a group basis. For such loans, the allowance is determined considering the historical charge-off experience of each loan category (e.g. residential mortgage, auto, personal, credit cards, etc.) and delinquency levels as well as charge-off and delinquency trends and economic data.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities based on enacted tax laws. A valuation allowance is recognized for any deferred tax asset which, based on management's evaluation, is more likely than not (a likelihood of more than 50%) that some portion or the entire deferred tax asset will not be realized.

Doral Financial recognizes any effect of change in tax rates during the period in which such changes are enacted into law and recognizes income tax benefits when the realization of such benefits are probable.

Adoption of a New Accounting Pronouncement

In the fourth quarter of 2004, the Company adopted a new accounting pronouncement that resulted in the addition of 8.674 million shares of common stock to the fully diluted common stock share base by assuming the conversion of the 1.38 million outstanding shares of the Company's contingently convertible preferred stock. This new accounting pronouncement is effective for periods ending after December 15, 2004, and was applied by retroactively restating previously reported earnings per diluted share. All references in the accompanying Management's Discussion and Analysis of Financial Condition and Results of Operations to the number of average diluted common shares and diluted earnings per share amounts have been restated accordingly.

Investors are encouraged to carefully read this Management's Discussion and Analysis of Financial Condition and Results of Operations together with Doral Financial's Consolidated Financial Statements, including the Notes to the Consolidated Financial Statements.

As used in this report, references to "the Company" or "Doral Financial" refer to Doral Financial Corporation and its consolidated subsidiaries unless otherwise indicated.

Consolidated Results

Net Income

Doral Financial's net income for the year ended December 31, 2004, increased to $489.6 million, compared to $321.3 million and $221.0 million for the years ended December 31, 2003 and 2002, respectively. Diluted earnings per common share for 2004 increased from $2.70 in 2003 to $3.95 in 2004, an increase of 46%. Diluted earnings per common share for 2002 were $1.89.

Doral Financial's consolidated net income for the year ended December 31, 2004, includes an income tax benefit of approximately $77.0 million resulting from recent local legislation that provided a temporary reduction in the long-term capital gain tax rates for transactions occurring on or before June 30, 2005. In the fourth quarter of 2004, the Company effected certain tax-planning strategies to accelerate the realization of long-term capital gains that had been deferred for tax purposes in order to benefit from the temporary reduction in the long-term capital gain tax rates. The ability of Doral Financial to obtain future capital gains tax benefits under this provision will depend on its ability to structure transactions with assets that meet the six-month holding period requirement for capital gains treatment on or before June 30, 2005.

Doral Financial's results of operations were also significantly impacted by the increase in short-term interest rates experienced during 2004 which, among other things, caused a loss of $131.0 million in the value of the Company's IOs.

Consolidated results include the operations of Doral Financial's banking units, which contributed $184.7 million, before intersegment eliminations, to Doral Financial's consolidated net income in 2004, compared to $121.4 million for 2003 and $92.4 million for 2002. The contribution of the banking segment includes the investment activities of Doral International, Inc., Doral Bank-PR's wholly owned international banking entity subsidiary. Interest income and capital gains derived from U.S. securities are generally tax-exempt to Doral International under Puerto Rico law.

Net Interest Income

Net interest income is the excess of interest earned by Doral Financial on its interest-earning assets over the interest incurred on its interest-bearing liabilities.

Net interest income for the years 2004, 2003 and 2002, was $265.9 million, $181.5 million, and $152.4 million, respectively. The increase in net interest income for the year 2004 compared to 2003 was due to an increase in Doral Financial's average balance of net interest-earning assets, particularly in its mortgage-backed and investment securities, driven by a higher level of securitizations and the Company's strategy to increase its tax-exempt income by investing in mortgage-backed and U.S. Treasury and agency securities. The Company also experienced a moderate increase in its net interest spread and margin during 2004. Average interest-earning assets grew by 39% compared to 2003. Doral Financial's net interest spread and margin for 2004 were 1.83% and 2.23%, respectively, compared to 1.76% and 2.11% for 2003. Net interest spread and margin improved during 2004 because rates paid by Doral Financial on its borrowings declined more in relative terms than the rates earned by Doral Financial on its loans and securities. The average rate paid by Doral Financial on its interest-bearing liabilities decreased by 54 basis points during 2004, while the average yield on its interest-earning assets decreased by 47 basis points compared to 2003. During 2004, the Company repaid $200.0 million of its 8.50% medium-term notes and $5.0 million of its 8.35% senior-term notes. The Company also made principal repayments of approximately $32.0 million to reduce the balance of a 7.50% note payable to a local bank collateralized by mortgage loans. Doral Financial replaced such borrowings with lower-cost borrowings, particularly an aggregate of $740.0 million floating rate senior notes issued during 2004 with interest tied to 3-month LIBOR, and with maturities ranging from December 2005 to July 2007. These transactions allowed the Company to improve its interest rate spread and margin, compared to 2003, despite the increase in short-term market interest rates experienced during the latter part of 2004.

The increase in net interest income for the year 2003 compared to 2002 was due principally to an increase in Doral Financial's average balance of net interest-earning assets, partially offset by a reduction in the interest rate spread. The contraction of the spread, which declined by 17 basis points from 1.93% for 2002 to 1.76% for 2003, reflects an accelerated amortization of IOs due to actual and anticipated higher levels of prepayment activity, resulting in a reduction in the average net yield of IOs from 15.49% for 2002 to 8.14% for 2003. Lower yields were partially offset by a reduction in the average cost of interest-bearing liabilities, which decreased from 4.17% for 2002 to 3.49% for 2003, due to decreases in interest rates paid by Doral Financial on its borrowings.

The following table presents Doral Financial's average balance sheet, for the years indicated, the total dollar amount of interest income from its average interest-earning assets and the related yields, as well as the interest expense on its average interest-bearing liabilities expressed in both dollars and rates, and the net interest margin and spread. The table does not reflect any effect of income taxes. Average balances are based on the average daily balances.

Table A – Average Balance Sheet and Summary of Net Interest Income

(Dollars in thousands)	2004 Average Balance	2004 Interest	2004 Average Yield/Rate	2003 Average Balance	2003 Interest	2003 Average Yield/Rate	2002 Average Balance	2002 Interest	2002 Average Yield/Rate
Assets:									
Interest-Earning Assets:									
Total loans(1)(2)	$ 3,372,974	$ 234,423	6.95%	$ 3,252,276	$ 219,916	6.76%	$ 2,923,187	$ 203,084	6.95%
Mortgage-backed securities	2,318,854	100,808	4.35%	1,263,282	68,864	5.45%	1,314,865	82,076	6.24%
Interest-only strips	771,133	55,568	7.21%	454,612	37,007	8.14%	283,827	43,959	15.49%
Investment securities	3,770,157	156,571	4.15%	2,375,983	113,430	4.77%	1,143,556	68,886	6.02%
Money market investments	1,699,361	23,477	1.38%	1,267,736	13,353	1.05%	1,152,743	17,595	1.53%
Total interest-earning assets/interest income	11,932,479	$ 570,847	4.78%	8,613,889	$ 452,570	5.25%	6,818,178	$ 415,600	6.10%
Total non-interest-earning assets	799,313			674,078			609,826		
Total assets	$ 12,731,792			$ 9,287,967			$ 7,428,004		
Liabilities and Stockholders' Equity:									
Interest-Bearing Liabilities:									
Deposits	$ 3,239,996	$ 80,683	2.49%	$ 2,651,633	$ 75,060	2.83%	$ 2,037,603	$ 72,769	3.57%
Repurchase agreements	4,805,381	120,635	2.51%	2,999,339	90,514	3.02%	2,554,628	98,014	3.84%
Advances from the FHLB	1,254,202	49,842	3.97%	1,250,034	49,164	3.93%	972,633	42,161	4.33%
Loans payable	225,738	6,006	2.66%	243,111	6,112	2.51%	206,127	6,195	3.01%
Notes payable	799,396	47,783	5.98%	621,278	50,240	8.09%	546,844	44,039	8.05%
Total interest-bearing liabilities/interest expense	10,324,713	$ 304,949	2.95%	7,765,395	$ 271,090	3.49%	6,317,835	$ 263,178	4.17%
Total non-interest-bearing liabilities	649,889			278,948			212,733		
Total liabilities	10,974,602			8,044,343			6,530,568		
Stockholders' equity	1,757,190			1,243,624			897,436		
Total liabilities and stockholders' equity	$ 12,731,792			$ 9,287,967			$ 7,428,004		
Net interest-earning assets	$ 1,607,766			$ 848,494			$ 500,343		
Net interest income on a non-taxable equivalent basis		$265,898			$181,480			$152,422	
Interest rate spread(3)			1.83%			1.76%			1.93%
Interest rate margin(4)			2.23%			2.11%			2.24%
Net interest-earning assets ratio			115.57%			110.93%			107.92%

(1) Average loan balances include the average balance of non-accruing loans, on which interest income is recognized when collected.
(2) For 2004, interest income on loans includes a yield adjustment of $5.7 million related to deferred fees on construction loans repaid prior to maturity.
(3) Interest rate spread represents the difference between Doral Financial's weighted-average yield on interest-earning assets and the weighted-average rate on interest-bearing liabilities.
(4) Interest rate margin represents net interest income as a percentage of average interest-earning assets.

The following table describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected Doral Financial's interest income and interest expense during the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) changes in rate (change in rate multiplied by current year volume), and (iii) total change in rate and volume. The combined effect of changes in both rate and volume has been allocated in proportion to the absolute dollar amounts of the changes due to rate and volume.

Table B – Net Interest Income Variance Analysis

	2004 compared to 2003 Increase / (Decrease) Due to:			2003 compared to 2002 Increase / (Decrease) Due to:		
(In thousands)	Volume	Rate	Total	Volume	Rate	Total
Interest Income Variance						
Total loans	$ 8,159	$ 6,348	$ 14,507	$ 22,872	$ (6,040)	$ 16,832
Mortgage-backed securities	57,529	(25,585)	31,944	(3,219)	(9,993)	(13,212)
Interest-only strips	25,765	(7,204)	18,561	26,455	(33,407)	(6,952)
Investment securities	66,502	(23,361)	43,141	74,192	(29,648)	44,544
Money market investments	4,532	5,592	10,124	1,759	(6,001)	(4,242)
Total interest income variance	162,487	(44,210)	118,277	122,059	(85,089)	36,970
Interest Expense Variance						
Deposits	16,651	(11,028)	5,623	21,921	(19,630)	2,291
Repurchase agreements	54,542	(24,421)	30,121	17,077	(24,577)	(7,500)
Advances from the FHLB	164	514	678	12,011	(5,008)	7,003
Loans payable	(436)	330	(106)	1,113	(1,196)	(83)
Notes payable	14,410	(16,867)	(2,457)	5,992	209	6,201
Total interest expense variance	85,331	(51,472)	33,859	58,114	(50,202)	7,912
Net interest income variance	$ 77,156	$ 7,262	$ 84,418	$ 63,945	$ (34,887)	$ 29,058

Interest Income

Total interest income increased from $415.6 million during 2002, to $452.6 million during 2003 and to $570.8 million during 2004. The increases in interest income are primarily related to the increase in Doral Financial's total average balance of interest-earning assets, which increased by $3.3 billion during 2004 and by $1.8 billion during 2003.

Interest income on loans increased by $14.5 million or 7% during 2004, compared to 2003, and increased by $16.8 million or 8% during 2003 compared to 2002. The increases during both periods reflect an increase in the level of loans held by Doral Financial due to the increased volume of loan originations and purchases. Also during 2004, the Company recognized a yield adjustment of $5.7 million related to deferred fees on construction loans with an aggregate outstanding balance of $62.9 million, which were repaid prior to their stated maturity.

Interest income on mortgage-backed securities increased by $31.9 million or 46% during 2004, and decreased by $13.2 million or 16% during 2003 compared to 2002. The results for the year 2004 reflect an increase in the average balance of mortgage-backed securities, which increased from $1.3 billion for 2003 to $2.3 billion for 2004. The higher average balance was offset in part by an increase in amortization of premiums, particularly on U.S. GNMAs, due to higher prepayments experienced on such portfolio during 2004 compared to 2003. The increases in the average balance of mortgage-backed securities reflect the Company's strategy to continue to maximize tax-exempt interest income by holding a significant amount in U.S. GNMAs and U.S. FHLMC/FNMA mortgage-backed securities at its international banking entity subsidiary. Under Puerto Rico law the interest earned on such U.S. mortgage-backed securities is tax exempt for Doral Financial's international banking entity subsidiary and is not subject to U.S. income taxation because such entity is considered a foreign corporation for U.S. income tax purposes and is entitled to the portfolio interest deduction with respect to interest earned on those securities. Also, the Company holds a significant amount of tax-exempt Puerto Rico GNMA securities.

The results for the year 2003 reflect a decrease in the Company's average balance of mortgage-backed securities, which declined by $51.6 million. The decrease in interest income on mortgage-backed securities during 2003 reflects a higher volume of sales of instruments with higher prepayment risk during such period, including a bulk sale of approximately $250 million in Puerto Rico GNMA securities to a local investment company.

Interest income on IOs increased by $18.6 million to $55.6 million during 2004, from $37.0 million for the year 2003. The increase during 2004 resulted from an increase in the average balance of IOs, from $454.6 million for 2003 to $771.1 million for 2004. The increase in IOs resulted from a higher volume of sale and securitization activities partially offset by a reduction in the average net yield, from 8.14% for 2003 to 7.21% for 2004. The reduction in the average net yield of IOs is related to some extent to the flattening of the yield curve that results in a contraction of the spread on the variable rate IOs. The actual cash flow received on the Company's portfolio of IOs, particularly its floating rate IOs, increased to $157.1 million for 2004, compared to $116.6 million for 2003. Under floating rate IOs, the purchaser of a mortgage pool is entitled to a pass-through rate based on a floating rate tied to short-term LIBOR rates. The Company is entitled to retain the difference between the floating rate paid to the investor and the actual amount of interest received from the underlying fixed-rate mortgage loans.

The decrease during 2003 compared to 2002 reflects a reduction in the average net yield, from 15.49% for 2002 to 8.14% for 2003, resulting from the accelerated amortization of IOs due to actual and anticipated higher levels of prepayment activity as a result of the continuing low mortgage rate environment. However, the actual cash flow received on the Company's portfolio of IOs, particularly its floating rate IOs, increased to $116.6 million for 2003, compared to $84.5 million for 2002. The increase in actual cash flow received on IOs was related in part to the increase in the average balance of IOs, which increased from $283.8 million for 2002 to $454.6 million for 2003 and to the lower LIBOR rates experienced during 2003, which increased the Company's spread on the variable IOs held.

Interest income on investment securities increased by $43.1 million or 38% from 2003 to 2004, and by $44.5 million or 65% from 2002 to 2003. The increases in interest income on investment securities during 2004 and 2003 reflect Doral Financial's strategy to increase its tax-exempt interest income by investing in U.S. Treasury and agency securities, the interest on which is tax exempt to the Company under Puerto Rico law and is not subject to U.S. income taxation because of Doral Financial's status as a foreign corporation for U.S. income tax purposes. The average balance of investment securities increased from $1.1 billion for 2002 to $2.4 billion for 2003 and to $3.8 billion for 2004. The Company's higher balance in investment securities was partially offset by a reduction of 62 basis points in the average yield for 2004 compared to 2003 and of 125 basis points for 2003 compared to 2002. These reductions reflect the downward trend in long-term interest levels since the early part of 2002, and the replacement of higher-yield securities called or matured with lower-yield current-coupon securities.

Interest income on money market investments increased by $10.1 million from 2003 to 2004. Money market investments consist of fixed-income securities whose original maturity is less than three months, including overnight deposits, term deposits, and reverse repurchase agreements. The increase for 2004 reflects an increase of 33 basis points in the average yield on money markets due to higher short-term interest rates and an increase in the average balance of money market instruments, principally overnight and term deposits. The average balance of money market investments increased from $1.3 billion for 2003 to $1.7 billion for 2004 as a higher volume of liquid assets was accumulated by the Company in anticipation of rising interest rates.

Interest income on money market investments decreased by $4.2 million from 2002 to 2003. The decrease for 2003 reflects lower short-term interest rates offset in part by a higher volume of money market instruments accumulated by Doral Financial for 2003 in anticipation of rising interest rates. The average yield on money market investments declined by 48 basis points from 1.53% for 2002 to 1.05% for 2003.

Interest Expense

Total interest expense increased to $304.9 million for 2004, compared to $271.1 million for 2003, an increase of 13%, and by $7.9 million from 2002 to 2003, an increase of 3%. The increases in interest expense for 2004 and 2003 were due to an increased volume of borrowings to finance Doral Financial's loan production and investment activities that was partly offset by a decrease in the average cost of borrowings. The average balance of interest-bearing liabilities increased to $10.3 billion at an average cost of 2.95% for 2004, compared to $7.8 billion at an average cost of 3.49% for 2003 and $6.3 billion at an average cost of 4.17% for the year ended December 31, 2002.

Interest expense on deposits amounted to $80.7 million during 2004, an increase of 7% compared to 2003, and increased by $2.3 million or 3% during 2003 compared to 2002. The increase in interest expense on deposits reflects a larger

deposit base held at Doral Financial's banking subsidiaries that was partly offset by a decrease in the average cost of deposits. The average balance of deposits increased to $3.2 billion for 2004, from $2.7 billion for 2003 and $2.0 billion for 2002. The increase in deposits reflects the expansion of Doral Financial's bank branch network, which increased to 46 branches as of December 31, 2004, compared to 41 branches as of December 31, 2003 and 36 branches as of December 31, 2002. The average interest cost on deposits was 2.49% during 2004, 2.83% during 2003 and 3.57% during 2002.

Interest expense related to securities sold under agreements to repurchase increased by $30.1 million or 33% during 2004 compared to 2003, and decreased $7.5 million or 8% during 2003 compared to 2002. The increase in interest expense on securities sold under agreements to repurchase during 2004 reflects increased borrowings to finance mortgage-backed securities and other investment securities, compared to 2003 that more than offset lower borrowing costs experienced during 2004. The average balance of borrowings under repurchase agreements for 2004 was $4.8 billion, compared to $3.0 billion for 2003. The average cost on securities sold under agreements to repurchase was 2.51% for 2004, compared to 3.02% for 2003.

The decrease in interest expense on securities sold under agreements to repurchase during 2003, compared to 2002, reflected lower borrowing costs that more than offset increased borrowings to finance mortgage-backed securities and other investment securities. The average balance of borrowings under repurchase agreements for 2003 was $3.0 billion at an average cost of 3.02%, compared to $2.6 billion at an average cost of 3.84% for 2002.

Interest expense on advances from the FHLB increased by approximately $678,000 for 2004, compared to 2003, and by $7.0 million, or 17% during 2003 compared to 2002. The increase in interest expense on advances from the FHLB during 2004 reflects an increase in the average cost of advances from the FHLB, from 3.93% for 2003 to 3.97% for the year ended December 31, 2004 and a slight increase of $4.2 million, or 0.3% in the average balance of advances from the FHLB. During 2004, Doral Financial relied on deposits and other sources of borrowings for additional financing. Increased deposits replaced the overall unchanged volume of advances from the FHLB. The increase in interest expense on advances from the FHLB during 2003 reflects a larger increase in the average balance of borrowings to finance the Company's banking operations. The average balance of advances from the FHLB increased to $1.3 billion at an average cost of 3.93% for 2003, compared to $972.6 million at an average cost of 4.33% for 2002.

Interest expense related to loans payable amounted to $6.0 million for 2004, compared to $6.1 million for 2003, a decrease of approximately $106,000. From 2002 to 2003 it decreased by $83,000. The decrease in interest expense on loans payable for 2004 was principally due to a decrease in the average balance of loans payable from $243.1 million for 2003 to $225.7 million for 2004 that was partially offset by an increase of 15 basis points in the average cost of loans payable. The average interest rate cost for loans payable was 2.66% for 2004, compared to 2.51% for 2003. Increased volume of securities sold under agreements to repurchase with lower average costs replaced the decrease in loans payable.

The decrease in interest expense on loans payable for 2003, compared to 2002, was due to the decrease of the rates paid by Doral Financial on its warehousing lines of credit that more than offset the increase in the average balance of loans payable outstanding from $206.1 million to $243.1 million for 2002 and 2003, respectively. The average interest rate cost for borrowings under Doral Financial's loans payable was 2.51% and 3.01% for 2003 and 2002, respectively.

Interest expense on notes payable was $47.8 million for 2004, compared to $50.2 million for 2003, a decrease of 5% and it increased by $6.2 million or 14% during 2003 compared to 2002. The decrease in interest expense on notes payable is due to a decrease in the average cost of notes payable from 8.09% for 2003 to 5.98% for 2004. The decrease in the average cost during 2004 was principally related with the repayment at maturity of $200.0 million of the Company's 8.50% medium-term notes due July 8, 2004 and $5.0 million of its 8.35% senior-term notes. The Company also made principal payments of approximately $32.0 million to reduce the balance of a 7.50% note payable to a local bank collateralized by mortgage loans. The decrease in average cost was partially offset by the increase in the balance of notes payable related to the issuance of an aggregate principal amount of $625.0 million of the Company's floating rate senior notes due July 20, 2007, and of $115.0 million of its floating rate senior notes due December 7, 2005, during the third quarter and second quarter of 2004, respectively. The proceeds from the issuance of this unsecured debt allowed Doral Financial to match floating rate liabilities with floating rate assets. Doral Financial pays interest on its floating rate senior notes due July 20, 2007, at a rate equal to the applicable U.S. dollar 3-month LIBOR plus 0.83% on a quarterly basis (2.91% as of December 31, 2004, based on the last interest rate reset on October 10, 2004). The floating rate senior notes due December 7, 2005, bear interest at a rate equal to the applicable U.S. dollar 3-month LIBOR plus 0.625% on a quarterly basis (3.07% as of December 31, 2004, based on the last interest rate reset on December 7, 2004) on a quarterly basis.

The increase in interest expense on notes payable for 2003 was due to the increase in the average balance of $74.4 million in notes payable compared to 2002. During the second quarter of 2002, Doral Financial closed the sale of $30.0 million of its 7.00% Senior Notes due 2012, $40.0 million of its 7.10% Senior Notes due 2017 and $30.0 million of its 7.15% Senior Notes due 2022.

Provision for Loan Losses

The provision for loan losses is charged to earnings to bring the total allowance for loan losses to a level considered appropriate by management based on Doral Financial's historical loss experience, current delinquency rates, known and inherent risks in the loan portfolio, an assessment of individual problem loans, the estimated value of the underlying collateral, and an assessment of current economic conditions. While management believes that the current allowance for loan losses is adequate, future additions to the allowance for loan losses could be necessary if economic conditions change or if credit losses increase substantially from the assumptions used by Doral Financial in determining the allowance for loan losses. Unanticipated increases in the allowance for loan losses could result in reductions in Doral Financial's net income. As of December 31, 2004, approximately 97% of the Company's loan portfolio was secured, and the amounts due on delinquent loans have historically been recovered through the sale of the property after foreclosure or negotiated settlements with borrowers.

Doral Financial recognized provisions for loan losses of $5.5 million, $14.1 million and $7.4 million for the years ended December 31, 2004, 2003 and 2002, respectively. During 2003, the Company had increased the allowance for loan losses to provide a reserve for a construction loan with an outstanding balance of $13.5 million that was not considered a non-performing loan as of December 31, 2003, but is reflected as a non-performing loan during 2004. See "Non-Performing Assets and Allowance for Loan Losses." Also, a smaller provision for 2004 resulted from a reduction in non-performing loans from $106.6 million in 2003 to $100.8 million in 2004 as well as a reduction in consumer loan net charge-offs. The allowance for loan losses equals 0.85% of total loans as of December 31, 2004, compared to 0.83% as of December 31, 2003.

Non-Interest Income

Net Gain on Mortgage Loan Sales and Fees. Net gain from mortgage loan sales and fees increased by 54% during 2004 and by 77% from 2002 to 2003. The increases for 2004 and 2003 were mainly attributable to a greater volume of sales of non-conforming loans to local financial institutions as a result of record mortgage loan production that was fueled by the increased demand for housing and mortgage refinancing. The increase also reflects the ability of Doral Financial to obtain higher profitability through increased margins on such sales and the retention of IOs in connection with such sales. See "Critical Accounting Policies – Gain on Mortgage Loan Sales and Retained Interest Valuation."

Total loan sales and securitizations were $6.8 billion for 2004, compared to $5.0 billion for 2003 and $4.0 billion for 2002. Loan sales and securitizations that resulted in the recording of IOs amounted to $3.5 billion during 2004, compared to $2.0 billion for 2003 and $1.6 billion for 2002. Doral Financial retained IOs as part of its sales activities of $509.3 million for 2004, compared to $281.3 million for 2003 and $197.9 million for 2002. During 2004, Doral Financial also recorded $66.9 million in connection with the recognition of MSRs as part of its loan sale and securitization activities, compared to $47.0 million for 2003 and $40.1 million for 2002.

Net Servicing Income. Servicing income represents revenues earned for administering mortgage loans for others. The main component of Doral Financial's servicing income is loan-servicing fees, which depend on the type of mortgage loans being serviced. Loan servicing fees, net of guarantee fees, amounted to $28.7 million for 2004, compared to $25.8 million for 2003 and $25.5 million for 2002. The increase in servicing fees, net of guarantee fees, was principally due to a 12% increase in the average servicing portfolio. Doral Financial's mortgage-servicing portfolio, including its own loan portfolio of $1.9 billion at December 31, 2004, $2.5 billion at December 31, 2003, and $1.9 billion at December 31, 2002, was approximately $14.3 billion at December 31, 2004, compared to $12.7 billion at December 31, 2003, and $11.2 billion at December 31, 2002. The servicing fees on residential mortgage loans generally range from 0.25% to 0.44%, net of guarantee fees, of the declining outstanding principal amount of the serviced loan. Doral Financial's weighted-average gross servicing fee rate for 2004 was 0.31% compared to 0.32% for 2003 and 0.33% for 2002. The size of Doral Financial's loan-servicing portfolio has increased substantially since its inception as a result of increases in loan production and bulk purchases of servicing rights.

Late fees and other servicing-related fees such as prepayment fees are also included as a component of servicing income. Late fees and other servicing-related fees were $11.9 million for 2004, compared to $9.5 million in 2003 and $8.5 million in 2002.

Net servicing income for 2004 was $4.9 million compared to a loss of $15.1 million for 2003 and a loss of $6.7 million for 2002. The increase for 2004 was the result of reduced amortization

and impairment charges of mortgage-servicing assets resulting from lower actual and forecasted prepayments. Doral Financial recognized amortization and impairment charges of $35.7 million for 2004, compared to $50.4 million for 2003, and $40.6 million for 2002. Net impairment charges for 2004 amounted to $7.1 million, compared to $15.9 million for 2003 and $9.2 million for 2002. The reduced impairment charges during 2004 were the result of a stable low level of mortgage interest rates compared to the sharp decrease in rates experienced during the early part of 2003, which was reflected in a reduction in the impairment allowance of certain mortgage servicing rights strata that experienced lower than anticipated prepayments. See Note 12 to Doral Financial's Consolidated Financial Statements for additional information.

The value of the servicing asset retained in the sale of a mortgage loan reduces the basis of the mortgage loan and thereby results in increased "Net Gain on Mortgage Loan Sales and Fees" at the time of sale. During 2004, 2003 and 2002, Doral Financial recognized servicing assets of $66.9 million, $47.0 million and $40.1 million, respectively, in connection with the sale of loans to third parties.

Set forth below is a summary of the components of net servicing income (loss):

Table C – Components of Net Servicing Income (Loss)

	Year ended December 31,		
(In thousands)	2004	2003	2002
Servicing fees (net of guarantee fees)	$ 28,697	$ 25,793	$ 25,498
Late charges	7,393	6,958	6,522
Prepayment penalties	6,201	5,334	4,115
Interest loss	(2,620)	(2,974)	(2,331)
Other servicing fees	923	216	161
Servicing income, gross	40,594	35,327	33,965
Amortization and impairment of servicing assets	(35,701)	(50,444)	(40,630)
Servicing income (loss), net	$ 4,893	$ (15,117)	$ (6,665)

The following table shows the changes in Doral Financial's mortgage-servicing assets for each of the years shown:

Table D – Capitalization of Mortgage-Servicing Assets

	Year ended December 31,		
(In thousands)	2004	2003	2002
Balance at beginning of year	$ 178,890	$ 169,033	$ 154,340
Capitalization	71,448	58,061	46,171
Amortization	(28,651)	(34,576)	(31,478)
Application of valuation allowance to write-down permanently impaired servicing assets	(10,540)	(13,628)	–
Balance before valuation allowance at end of year	211,147	178,890	169,033
Valuation allowance for temporary impairment	(7,902)	(11,392)	(9,152)
Balance at end of year	$ 203,245	$ 167,498	$ 159,881

Amortization of Servicing Assets

Doral Financial's servicing assets are amortized in proportion to, and over the life of the underlying mortgage loans. Amortization of servicing assets is recorded as a reduction of servicing income in Doral Financial's Consolidated Statements of Income. Doral Financial monitors changes in interest and prepayment rates and adjusts the amount of amortization or records an impairment loss that is charged to current period earnings, to reflect changes in prepayment rates. During 2004, total amortization of servicing assets, including impairment charges, amounted to $35.7 million versus $50.4 million for 2003 and $40.6 million for 2002. The decrease in amortization of servicing assets during 2004 was primarily due to an increase in future estimated net MSR cash flows due to actual and forecasted lower mortgage prepayments in 2004 when compared to 2003.

During 2004, net impairment charges of servicing assets amounted to $7.1 million, compared to $15.9 million for 2003 and $9.2 million for 2002. Higher mortgage rates in the future

would result in an increase in the estimated fair value of the servicing assets and recovery of all or a portion of the valuation allowance for temporary impairment.

Net Gain (Loss) on Securities Held for Trading. Set forth below is a summary of the components of the net gain (loss) from securities held for trading:

Table E – Components of Net Gain (Loss) from Securities Held for Trading

(In thousands)	Year ended December 31, 2004	2003	2002
Net realized gains on sales of securities held for trading	$ 24,900	$ 120,528	$ 84,404
(Losses) gains on the IO valuation	(131,007)	7,314	(6,465)
Net unrealized gains and (losses) on trading securities, excluding IOs	3,385	(14,870)	9,057
Net realized and unrealized losses on derivative instruments	(97,885)	(107,381)	(91,267)
Total	$ (200,607)	$ 5,591	$ (4,271)

Net gain (loss) on securities held for trading includes gains and losses, whether realized or unrealized, in the market value of Doral Financial's securities accounted for as held for trading, including IOs, as well as options, futures contracts and other derivative instruments used for interest rate risk management purposes. During 2004 the Company recognized a net loss on securities held for trading of $200.6 million compared to a net gain of $5.6 million for 2003 and a net loss of $4.3 million for 2002. The net loss on securities held for trading for 2004 was principally due to losses on the value of the Company's IOs of $131.0 million, compared to a gain of $7.3 million for 2003 and losses of $6.5 million for 2002. Higher losses during 2004 were recognized as a result of increases in the 3-month LIBOR that reduced the anticipated spread of the Company's variable rate IOs. As the 3-month LIBOR increases, the spread received on the Company's variable rate IOs decreases and adversely affects its fair value. This may be offset, to some extent, by a reduction of prepayments and the extension of the asset's life. Conversely, as the 3-month LIBOR decreases, the spread received on the IOs increases, at the same time causing accelerated prepayments that shorten the life of the asset. The net loss on securities held for trading also included net losses of $97.9 million with respect to derivative instruments undertaken for risk management purposes. The Company's interest rate risk management program is designed to protect the value of the Company's assets and income from substantial increases in long-term interest rates that cannot be absorbed in the normal course of business. As the yield curve flattened during the latter part of 2004, the Company experienced increased losses on the value of its derivatives. Also during 2004, net gain (loss) on securities held for trading included a loss of $7.0 million, which represents the ineffective portion of the fair value hedges related to certain securities available for sale. See "Interest Rate Risk Management."

The increased net gain on securities held for trading during 2003, compared to 2002, was related primarily to realized gains with respect to securities held for trading. Increased realized gains on securities held for trading during 2003 reflected an increased volume of trading activities and higher profits, particularly in Doral Financial's international banking entity subsidiary as well as a gain of approximately $12.2 million on a bulk sale of $250 million of Puerto Rico GNMAs to a local fixed-income investment company. Sales of trading securities were $11.6 billion in 2003, compared to $11.1 billion in 2002. Net realized gains on sale of trading securities were $120.5 million for 2003, compared to $84.4 million for 2002. Realized gains on sale of trading securities for 2003 were partially offset by net losses of $107.4 million on derivative instruments. For 2002, net losses on derivative instruments amounted to $91.3 million.

Net gain (loss) on securities held for trading for 2004, 2003 and 2002, also included $3.4 million of net unrealized gains, $14.9 million of net unrealized losses and $9.1 million of net unrealized gains, respectively, on the value of Doral Financial's securities held for trading, excluding IOs.

The value of Doral Financial's trading securities and derivatives is generally very sensitive to interest rate changes, and the reported fair values of certain of these assets such as IOs are based on assumptions regarding the direction of interest rates and prepayment rates on mortgage loans. As a result, changes in interest rates and prepayment rates for mortgage loans can result in substantial volatility in the components of the net gain (loss) on securities held for trading. As described under "Interest Rate Risk Management," Doral Financial attempts to mitigate the risk related to the value of its securities held for trading by entering into transactions involving the purchase of derivatives such as options and futures contracts. During 2004, 2003 and 2002, Doral Financial's risk management strategy was principally directed to protect the value of its securities and net interest income from a significant rise in long-term interest rates that could not be absorbed in the normal course of business. During 2004, 2003 and

2002, Doral Financial experienced losses on its derivatives because intermediate and long-term interest rates declined or remained stable at low levels.

Net Gain on Sale of Investment Securities. Net gain on sale of investment securities represents the impact on Doral Financial's income of transactions involving the sale of securities classified as available for sale. For 2004, sale of investment securities resulted in a gain of $10.6 million, compared to $5.4 million for 2003 and $23.9 million for 2002. Increased gains were mostly related to increased volume of sales. Increased sales activities resulted in proceeds from sales of securities available for sale of $10.0 billion in 2004, compared to $7.0 billion in 2003 and $5.4 billion in 2002. A substantial increase in the volume of sales was realized through Doral Financial's international banking entity subsidiary. Gain on the sale of securities through the international banking entity subsidiary is tax exempt to Doral Financial.

Commissions, Fees and Other Income. Commissions, fees and other income increased 43% during 2004 from $25.8 million for 2003 to $36.8 million for 2004. For the year ended December 31, 2002, commissions, fees and other income amounted to $21.9 million. The increases were due primarily to increased commissions and fees earned by Doral Financial's banking and insurance agency operations.

Set forth below is a summary of Doral Financial's principal sources of commissions, fees and other income:

Table F – Commissions, Fees and Other Income

(In thousands)	Year ended December 31, 2004	2003	2002
Retail banking fees	$ 13,578	$ 11,000	$ 7,595
Securities brokerage and asset management fees and commissions	1,945	2,993	2,220
Insurance agency commissions	11,852	7,910	6,868
Other income	9,411	3,867	5,203
Total	$ 36,786	$ 25,770	$ 21,886

Doral Financial's fees and commissions have increased steadily as Doral Financial's banking subsidiaries continue to increase their retail branch network and as Doral Financial continues to diversify its sources of revenue by generating additional securities fees, and generating fees and commissions from insurance agency activities. Doral Financial intends to further increase its fee income by continuing to aggressively cross-sell new banking and insurance products to its large retail customer base. Currently, Doral Financial captures a substantial portion of the insurance policies obtained by borrowers who obtain residential mortgage loans through Doral Financial's mortgage-banking entities.

Non-Interest Expenses

Total non-interest expenses increased by 13% during 2004, compared to 33% during 2003. A summary of non-interest expenses is provided below.

Table G – Non-Interest Expenses

(In thousands)	Year ended December 31, 2004	2003	2002
Compensation and employee benefits	$ 89,305	$ 82,940	$ 56,643
Taxes, other than payroll and income taxes	9,363	7,587	5,600
Advertising	15,079	15,311	10,974
Professional services	12,620	8,644	7,063
Communication and information systems	13,812	13,323	12,736
Occupancy and other office expenses	26,825	22,787	20,292
Depreciation and amortization	18,030	14,963	12,064
Other	24,018	20,247	14,038
Total non-interest expenses	$ 209,052	$ 185,802	$ 139,410

Compensation and employee benefits increased to $89.3 million for 2004, compared to $82.9 million for 2003 and $56.6 million for 2002. A significant portion of the increase was associated with the expensing of the fair value of stock options which increased to $9.7 million during 2004, compared to $4.5 million for 2003. The increase in stock-based compensation expenses was related to options on 1,560,000 common shares granted to certain executive officers during the first quarter of 2004. The increase in compensation expense also was attributable to increases in the average compensation and related fringe benefits and increases of 9% for 2004 and 18% for 2003, in headcount, from 2,021 employees as of December 31, 2002, to 2,375 as of December 31, 2003, and to 2,598 employees as of December 31, 2004. The increase in headcount is associated to Doral Financial's continued growth and expansion of its various businesses as the Company increases its lending and servicing activities.

Advertising expense amounted to $15.1 million in 2004, compared to $15.3 million in 2003 and $11.0 million in 2002. The Company maintains active campaigns for its loan and deposit products. The Puerto Rico financial services market is highly competitive and requires a substantial investment in advertising.

Professional fees for 2004 were $12.6 million compared to $8.6 million for 2003 and $7.1 million for 2002. The increase for 2004 was primarily due to legal, accounting, security and consulting fees associated with the continued expansion of Doral Financial's business and compliance with the requirements of the Sarbanes-Oxley Act of 2002.

Communication and information systems expense was $13.8 million in 2004, compared to $13.3 million in 2003 and $12.7 million in 2002. The increases for 2004 and 2003 reflect increased expenses in software licenses, mainly related with the banking operations as well as loan production and servicing activities, data lines, outsourced data processing and network fees associated with an expanding retail branch network and an increased customer base.

Occupancy and other office expenses were $26.8 million in 2004, compared to $22.8 million in 2003 and $20.3 million in 2002. The increase during 2004 was primarily due to increased costs associated with Doral Financial's ongoing branch network expansion program and refurbishing of existing bank branches. The increase during 2003 was mainly related with increased office-related expenses such as printing and stationary, mailing and utilities associated with Doral Financial's ongoing branch network expansion program and increased customer base. As of December 31, 2004, the Company conducts its business through 108 offices within Puerto Rico and New York City, compared to 103 offices as of December 31, 2003 and 95 offices as of December 31, 2002.

Depreciation and amortization expense was $18.0 million in 2004, compared to $15.0 million in 2003 and $12.1 million in 2002. The increase in depreciation was principally related to increases in leasehold improvements and the purchase of office furniture and equipment as well as software and hardware and computer systems upgrades related to the Company's growth.

Other expenses increased to $24.0 million in 2004, compared to $20.2 million in 2003 and $14.0 million in 2002. The increases for 2004 and 2003 were primarily related to increases in indirect mortgage loan origination-related expenses, employee-related expenses, custodial fees and other expenses. Increased donations and contributions were effected during 2004 as the Company continued its commitment with the development and support of innovative educational, social and philanthropic programs to assist the communities it serves. The Company's other expenses for 2004 also included a $2.4 million provision for losses on foreclosures, compared to approximately $1.1 million in 2003 and $1.2 million in 2002.

Income Taxes

Income taxes include Puerto Rico income taxes as well as applicable federal and state taxes. As Puerto Rico corporations, Doral Financial and all its Puerto Rico subsidiaries are generally required to pay federal income tax only with respect to their income derived from the active conduct of a trade or business in the United States (excluding Puerto Rico) and certain investment income derived from U.S. assets. Any such tax is creditable, with certain limitations, against Puerto Rico income taxes. Consolidated tax returns are not permitted under the Puerto Rico Internal Revenue Code; therefore, income tax returns are filed individually by each entity that conducts business as a Puerto Rico corporation. The maximum statutory corporate income tax rate in Puerto Rico is 39%.

On August 22, 2004, local legislation was enacted to provide a temporary reduction in the long-term capital gain tax rates. The law amends the Puerto Rico Internal Revenue Code of 1994 to reduce the long-term capital gain tax rates by fifty percent for transactions occurring from July 1, 2004, through June 30, 2005. As a consequence, the long-term capital gain tax rate applicable to gains on sale of property located in Puerto Rico and certain Puerto Rico securities during this period has been reduced to 6.25% from 12.5%. This reduction follows a permanent fifty percent reduction, pursuant to local legislation enacted on April 11, 2001, in the tax rate for

long-term capital gains from 25% to 12.5% for such Puerto Rico assets. To take advantage of this new rate reduction, during the fourth quarter of 2004 the Company completed an intercompany sale of approximately $536.6 million in IOs to accelerate the realization of long-term capital gains that had been deferred for tax purposes and resulted in the recognition of an income tax benefit of approximately $77.0 million. This income tax benefit represents the difference between the deferred tax liability on the IOs and the long-term capital gain tax rate of 6.25%. Excluding this transaction, the effective income tax rate for Doral Financial and its consolidated subsidiaries would have been 17.8% for 2004, compared to 18.3% for 2003 and 15.3% for 2002.

The lower effective tax rates (compared to the maximum statutory rate) were also the result of the tax exemption enjoyed by Doral Financial on interest income derived from certain FHA and VA mortgage loans secured by properties located in Puerto Rico and on GNMA securities backed by such mortgage loans. Doral Financial also invests in U.S. Treasury and agency securities that are exempt from Puerto Rico taxation and are not subject to federal income taxation because of the portfolio interest deduction to which Doral Financial is entitled as a foreign corporation. In addition, Doral Financial uses its international banking entity subsidiary to invest in various U.S. securities and U.S. mortgage-backed securities, which interest income and gain on sale, if any, is exempt from Puerto Rico income taxation and excluded from federal income taxation on the basis of the portfolio interest deduction in the case of interest, and in the case of capital gains, because the gains are sourced outside the United States. See Note 22 to Doral Financial's Consolidated Financial Statements for a reconciliation of the provision for income taxes to the amount computed by applying the applicable Puerto Rico statutory tax rates to income before taxes.

Except for the operations of Doral Bank-NY and Doral Money, substantially all of the Company's operations are conducted through subsidiaries in Puerto Rico. Doral Bank-NY and Doral Money are U.S. corporations and are subject to U.S. income tax on their income derived from all sources. For the years ended December 31, 2004, 2003 and 2002, the provision for income taxes for the Company's U.S. subsidiaries amounted to approximately $1.5 million, $2.0 million and $5.5 million, respectively.

In connection with local legislation enacted on January 8, 2004, designed to encourage international banking entities to operate as separate legal entities rather than operating divisions, effective March 31, 2004, Doral Financial phased out the operations of Doral Overseas, a division at the parent company level. At the same time, the Company has increased the investment activities of Doral International, Inc., another international banking entity and a wholly owned subsidiary of Doral Bank-PR. As a result, Doral Financial will continue enjoying 100% tax-exempt income from qualifying investments and activities conducted through its international banking entity.

Operating Segments

Doral Financial manages its business as four operating segments: mortgage banking, banking (including thrift operations), institutional securities operations and insurance agency activities. Refer to Note 33 of Doral Financial's Notes to the Consolidated Financial Statements for summarized financial information regarding these operating segments. The entire amount of interest expense related to debt incurred at the parent company level is allocated to the mortgage-banking segment along with an income tax benefit of approximately $77.0 million recorded during 2004. The majority of the Company's operations are conducted in Puerto Rico. The Company also operates in the mainland United States, principally in the New York City metropolitan area. Refer to Note 33 of Doral Financial's Notes to the Consolidated Financial Statements for summarized financial information for these operations. All figures shown in this section are based on balances before intersegment eliminations.

Mortgage Banking. This segment includes a wide range of activities, including the origination, sale, securitization and servicing of mortgage loans; the holding of mortgage-backed securities and other investment securities for sale or investment; and the origination of construction loans and mortgage loans secured by income-producing real estate or unimproved land. The mortgage-banking business is carried out primarily in Puerto Rico, and to a lesser extent in New York. Mortgage loan originations in Puerto Rico tend to be less sensitive to interest-rate changes than in the mainland United States because a significant number of loan originations in Puerto Rico are made for debt consolidation purposes rather than interest rate savings, among other reasons, because interest cost on mortgage loans is generally fully tax deductible for borrowers. Consumers in Puerto Rico tend to prefer fixed long-term mortgage loan rates that are generally well below rates on consumer debt. Servicing operations generally perform better when mortgage rates are relatively high and consequently loan prepayments are low.

The activities in this area are conducted through four mortgage banking units – HF Mortgage Bankers, an operating division within the parent company, Doral Mortgage Corporation, Centro Hipotecario de Puerto Rico, Inc. and Sana Mortgage Corporation. A strong demand for residential mortgage loans enabled the mortgage-banking segment to achieve growth in earnings in 2004 compared to 2003 and

2002. Net income for the mortgage-banking segment was $290.3 million in 2004, $192.5 million in 2003 and $124.9 million in 2002. Mortgage banking loan production increased 9% to $4.0 billion in 2004, compared to $3.7 billion in 2003 and $2.9 billion in 2002.

Net interest income was $70.2 million in 2004, $50.0 million in 2003, and $57.9 million in 2002. The increase in net interest income for 2004 was due to increased interest rate spread and margin experienced during the year, largely as a result of an increase in the average balance of interest-earning assets and the repayment of an aggregate of approximately $237.0 million of relatively high-rate notes payable and the replacement of such borrowings with lower-cost notes payable, as described in "Consolidated Results." Also during 2004, the Company recognized a yield adjustment on its mortgage-banking segment of $4.5 million related to deferred fees on construction loans that were repaid prior to their stated maturity. Conversely, the decrease in net interest income for 2003 was due to decreased interest spread and margin experienced during the year primarily related to an accelerated amortization of IOs due to actual and anticipated higher levels of prepayment activity as a result of the continuing low mortgage rate environment. Interest rate spread and margin for the mortgage-banking segment for 2004 was 1.22% and 2.55%, respectively, compared to 0.97% and 2.09% for 2003 and 1.84% and 2.52% for 2002.

Non-interest income was $309.2 million, $307.0 million and $165.9 million for 2004, 2003 and 2002, respectively. The increase during 2004 was related to increases on gain on sales of mortgage loans and securitizations related to a higher sales volume tied to increased mortgage loan production and higher profits on such sales and the retention of IOs in connection with bulk sales of mortgage loans to institutional investors. This was partially offset by losses on the value of the IOs of $131.0 million during 2004 as a result of increases in the 3-month LIBOR, compared to a gain of $7.3 million for 2003 and losses of $6.5 million for 2002. Loan sales were $4.5 billion for 2004, compared to $3.3 billion for 2003 and $2.6 billion for 2002. Demand for the Company's mortgage loans remains strong with some forward sale commitments extending into 2006, as described in "Off-Balance Sheet Activities."

Net servicing income increased during 2004, driven by decreased amortization and impairment charges of the Company's servicing assets. The combined amortization and impairment charges for the mortgage-banking segment amounted to $35.6 million during 2004, compared to $48.8 million and $39.6 million during 2003 and 2002, respectively.

The results for the mortgage-banking segment for the years ended December 31, 2004, 2003, and 2002, include the results of Doral Overseas, an international banking entity organized as a division at the parent company level. Doral Financial phased out the operations of Doral Overseas, effective March 31, 2004. For the years ended December 31, 2004, 2003, and 2002, the operations of Doral Overseas accounted for approximately $804,000, $28.8 million and $54.5 million, respectively, of the total non-interest income, and approximately $641,000, $5.4 million and $9.4 million, respectively, of the total net interest income of the mortgage-banking segment.

Doral Financial also operates another international banking entity, Doral International, Inc., a wholly owned subsidiary of Doral Bank-PR. The operations of Doral International are included within the banking segment discussed below. Doral Financial has increased the investment activities of Doral International and, accordingly, the diminished contribution from Doral Overseas was counterbalanced to some extent by an increased contribution from Doral International.

Banking. The banking segment includes Doral Financial's banking operations in Puerto Rico, currently operating through 40 retail bank branches, and its thrift operations in the New York City metropolitan area, currently operating through six branches. The investment activities by Doral Bank-PR through its international banking entity are also included within the banking segment. Doral Financial's banking subsidiaries offer a variety of loan and deposit products, with an emphasis on residential, construction and commercial real estate-secured mortgage loan products. The mortgage loan origination activity of the banking segment is closely integrated with the mortgage-banking segment. Doral Financial's banking subsidiaries have entered into master loan production agreements with their mortgage banking affiliates whereby the mortgage banking units help the banking subsidiaries originate loans by advertising to the general public and providing other origination and settlement services. These arrangements result in reduced expenses by avoiding the costs of maintaining duplicate origination systems. Net income for the banking segment amounted to $184.7 million during 2004, compared to $121.4 million and $92.4 million during 2003 and 2002, respectively.

Net interest income for the banking segment was $177.4 million for 2004, compared to $118.0 million for 2003 and $87.3 million for 2002. The increase in net interest income for 2004 and 2003 resulted mainly from continued increases in the amount of interest-earning assets, particularly in mortgage-backed and investment securities held by the banking subsidiaries, driven by the Company's strategy to increase

its tax-exempt income by investing in U.S. GNMAs and U.S. FHLMC/FNMA mortgage-backed securities, and by holding a significant amount of U.S. Treasury securities at its international banking entity subsidiary, as described in "Consolidated Results." Total average interest-earning assets for the banking segment for 2004 were $9.2 billion compared to $6.1 billion for 2003 and $4.3 billion for 2002. Total assets of the banking segment at end of year were $11.7 billion for 2004, compared to $7.2 billion for 2003 and $5.5 billion for 2002.

Non-interest income increased to $133.0 million in 2004, compared to $103.5 million in 2003 and $83.3 million in 2002. The increase during 2004 reflected increased gains on sales of mortgage loans tied to the increased volume of loan sales, mainly to the parent company, and the recognition of higher gains on such sales. Gains on mortgage loan sales and fees for this segment were $124.9 million in 2004 compared to $48.4 million in 2003 and $28.6 million in 2002. Trading activities for this segment resulted in a loss of $26.3 million in 2004 compared to gains of $48.0 million and $30.9 million in 2003 and 2002, respectively. The loss on trading activities was principally attributable to derivatives undertaken for interest rate risk management purposes. Banking fees and commissions also increased considerably during the period, from $7.6 million in 2002 to $11.0 million in 2003 and $13.6 million in 2004 as the Company continues the expansion of its bank branch network.

Institutional Securities Operations. This segment corresponds to the operations of Doral Financial's institutional broker-dealer subsidiary, Doral Securities, Inc., which is headquartered in San Juan, Puerto Rico. Doral Securities sells securities to institutional customers, provides investment banking services, provides investment management services to a locally based investment company, and to a lesser extent, operates a repurchase lending operation involving short-term extensions of credit secured by highly liquid and marketable securities. During 2004, Doral Securities significantly reduced its repurchase lending operations. Net income for this segment amounted to $4.4 million for 2004, $5.6 million for 2003 and $4.4 million for 2002. The decrease for 2004 was principally related to a decrease in intercompany agency fees paid by Doral Financial's other affiliates to Doral Securities and reduced repurchase lending operations with affiliates.

Net interest income was $3.4 million in 2004, compared to $3.6 million in 2003 and $2.6 million in 2002. The slight decrease for 2004 was related to lower activities in its trading and repurchase lending operations. Conversely, the increase for 2003 was related to larger spreads on its repurchase lending operations. The interest rate spread and margin for 2003 were 2.15% and 2.29%, compared to 0.68% and 0.72% for 2002.

Non-interest income was $4.4 million for 2004, compared to $7.8 million for 2003 and $8.8 million for 2002. The decrease during 2004 was primarily related to declines in trading profits and intercompany agency fees paid by Doral Financial's other affiliates to Doral Securities. Intercompany agency fees decreased to $1.9 million during 2004, from $2.3 million for 2003, and $3.6 million for 2002. Trading profits decreased from $2.9 million in 2002 to $2.4 million in 2003 and to $0.5 million in 2004. Agency fees dropped from $4.8 million in 2002 to $2.9 million in 2003 and to $2.4 million in 2004. Underwriting, investment banking and other fees increased from $1.0 million in 2002 to $2.5 million in 2003 and decreased to $1.5 million in 2004.

Insurance Agency. Doral Financial operates its insurance agency activities through its wholly owned subsidiary Doral Insurance Agency. Doral Insurance Agency's principal insurance products are hazard, title and flood insurance, which are sold primarily to Doral Financial's base of mortgage customers. Doral Insurance Agency is diversifying its range of products to include other forms of insurance such as auto, life and disability. Net income for this segment amounted to $10.9 million during 2004, compared to $6.1 million for 2003 and to $4.9 million for 2002. The increases for 2004 and 2003 were attributable to increases in insurance fees and commissions driven by the Company's record mortgage loan production and the cross-selling of mortgage-related insurance products to its client base. During 2004, Doral Insurance Agency had net interest income of approximately $5.3 million, compared to approximately $2.0 million for 2003 and $1.1 million for 2002. Non-interest income, which is mainly composed of insurance fees and commissions, amounted to $10.6 million during 2004, compared to $7.9 million for 2003 and $7.4 million for 2002.

Balance Sheet and Operating Data Analysis
Loan Production

Loan production includes loans internally originated by Doral Financial as well as residential mortgage loans purchased from third parties. Purchases of mortgage loans from third parties were $2.9 billion, $2.1 billion and $1.8 billion for the years ended December 31, 2004, 2003 and 2002, respectively. The following table sets forth the number and dollar amount of Doral Financial's loan production for the years indicated:

Table H – Loan Production

(Dollars in thousands, except for average initial loan balance)	Year ended December 31, 2004	2003	2002
FHA/VA mortgage loans			
Number of loans	5,116	3,973	6,050
Volume of loans	$ 446,551	$ 370,904	$ 531,363
Percent of total volume	6%	6%	10%
Average initial loan balance	$ 87,285	$ 93,356	$ 87,829
Conventional conforming mortgage loans			
Number of loans	18,472	18,340	17,951
Volume of loans	$ 3,268,982	$ 2,818,973	$ 2,466,900
Percent of total volume	42%	43%	48%
Average initial loan balance	$ 176,970	$ 153,706	$ 137,424
Conventional non-conforming mortgage loans(1)(2)			
Number of loans	33,717	24,956	20,385
Volume of loans	$ 2,849,083	$ 2,340,873	$ 1,461,093
Percent of total volume	36%	36%	28%
Average initial loan balance	$ 84,500	$ 93,800	$ 71,675
Other(3)			
Number of loans	4,029	2,289	2,024
Volume of loans	$ 1,238,078	$ 948,052	$ 709,225
Percent of total volume	16%	15%	14%
Total loans			
Number of loans	61,334	49,558	46,410
Volume of loans	$ 7,802,694	$ 6,478,802	$ 5,168,581

(1) Includes $160 million, $79 million and $65 million in second mortgages for the years ended December 31, 2004, 2003 and 2002, respectively.
(2) Includes $63 million, $160 million and $109 million in home equity or personal loans secured by real estate mortgages up to $40,000 for the years ended December 31, 2004, 2003 and 2002, respectively.
(3) Consists of construction loans on residential projects, mortgage loans secured by multifamily and commercial properties as well as other commercial, land, and consumer loans.

A substantial portion of Doral Financial's total residential mortgage loan originations has consistently been composed of refinance loans. For the years ended December 31, 2004, 2003, and 2002, refinance loans represented approximately 55%, 62% and 57%, respectively, of the total dollar volume of internally originated mortgage loans. Doral Financial's future results could be adversely affected by a significant increase in mortgage interest rates that may reduce refinancing activity. However, the Company believes that refinancing activity in Puerto Rico is less sensitive to interest rate changes than in the mainland United States because a significant number of refinance loans in the Puerto Rico mortgage market are made for debt consolidation purposes rather than interest savings and because interest cost on mortgage loans is tax-deductible for borrowers. Puerto Rico consumers tend to prefer long-term mortgage loan rates that are generally well below rates on consumer debt.

Loan Origination Channels

In Puerto Rico, Doral Financial relies primarily on its extensive retail mortgage banking and bank branch network to originate loans. It supplements these originations with wholesale purchases from other financial institutions. Purchases generally consist of conventional loans that qualify for the guarantee or sale programs of FNMA or FHLMC and of FHA and VA loans. Doral Financial also originates consumer, commercial, construction and land loans primarily through its banking subsidiaries. In Puerto Rico, Doral Financial maintains a specialized unit that works closely with housing project developers and originates mortgage loans to finance the acquisition of homes in new residential developments.

Doral Financial customarily sells or securitizes into mortgage-backed securities substantially all the loans it originates, except

for certain consumer, commercial, construction, land, and commercial real estate as well as certain residential mortgage loans originated through Doral Bank-PR, which are held for investment and classified as loans receivable. See "Loans Receivable."

The following table sets forth the sources of Doral Financial's loan production as a percentage of total loan originations for the years indicated:

Table I – Loan Origination Sources

	Year ended December 31,						
	2004			2003			2002
	Puerto Rico	U.S.	Total	Puerto Rico	U.S.	Total	Total
Retail	48%	–	48%	53%	–	53%	52%
Wholesale[1]	8%	30%	38%	8%	24%	32%	34%
New Housing Developments	9%	1%	10%	11%	–	11%	10%
Multifamily	–	–	–	–	1%	1%	1%
Other[2]	3%	1%	4%	2%	1%	3%	3%

(1) Refers to purchases of mortgage loans from other financial institutions and mortgage lenders. U.S. wholesale purchases normally do not include the related servicing right.
(2) Refers to commercial, consumer and land loans originated through the banking subsidiaries and other specialized units.

Mortgage Loan Servicing

Doral Financial's principal source of servicing rights has traditionally been its internal mortgage loan production. However, Doral Financial also purchases mortgage loans on a servicing-released basis as well as servicing rights in bulk. During the years ended December 31, 2004, 2003 and 2002, Doral Financial purchased servicing rights to approximately $266.6 million, $616.0 million and $381.2 million, respectively, in principal amount of mortgage loans. Doral Financial intends to continue growing its mortgage-servicing portfolio by internal loan originations and wholesale purchases of loans on a servicing-released basis, but will also continue to seek and consider attractive opportunities for bulk purchases of servicing rights from third parties.

The following table sets forth certain information regarding the total mortgage loan-servicing portfolio:

Table J – Mortgage Loan Servicing

	Year ended December 31,		
(Dollars in thousands, except for average size of loans prepaid)	2004	2003	2002
Composition of Servicing Portfolio at Year End:			
GNMA	$ 2,451,039	$ 2,729,132	$ 3,132,055
FHLMC/FNMA	3,656,712	3,483,173	3,104,970
Doral Financial grantor trusts	12,999	37,225	50,073
Other conventional mortgage loans(1)(2)	8,143,617	6,440,714	4,954,425
Total servicing portfolio	$ 14,264,367	$ 12,690,244	$ 11,241,523
Servicing Portfolio Activity:			
Beginning servicing portfolio	$ 12,690,244	$ 11,241,523	$ 10,006,380
Add:			
Loans funded and purchased(3)	4,141,931	3,723,566	2,908,671
Bulk servicing acquired	266,638	616,028	381,171
Less:			
Servicing sales	4,029	2,450	59,219
Run-off(4)	2,830,417	2,888,423	1,995,480
Ending servicing portfolio	$ 14,264,367	$ 12,690,244	$ 11,241,523
Selected Data Regarding Mortgage Loans Serviced:			
Number of loans	162,196	150,553	141,709
Weighted-average interest rate	6.76%	7.03%	7.41%
Weighted-average remaining maturity (months)	258	258	255
Weighted-average gross servicing fee rate	0.3111%	0.3182%	0.3345%
Average-servicing portfolio	$ 13,558,766	$ 12,057,231	$ 10,723,493
Principal prepayments	$ 2,333,000	$ 2,391,000	$ 1,677,000
Constant prepayment rate	15%	17%	14%
Average size of loans prepaid	$ 87,082	$ 90,833	$ 78,432
Servicing assets, net	$ 203,245	$ 167,498	$ 159,881
Delinquent Mortgage Loans and Pending Foreclosures at Year End:			
60-89 days past due	1.01%	1.06%	1.22%
90 days or more past due	1.55%	1.90%	1.92%
Total delinquencies excluding foreclosures	2.56%	2.96%	3.14%
Foreclosures pending	1.62%	1.72%	1.76%

(1) Includes $1.9 billion, $2.5 billion and $1.9 billion of loans owned by Doral Financial at December 31, 2004, 2003 and 2002, respectively, which represented 14%, 20% and 17%, respectively, of the total servicing portfolio as of such dates.
(2) Includes portfolios of $333.7 million, $261.4 million and $149.2 million at December 31, 2004, 2003 and 2002, respectively, of delinquent FHA/VA and conventional mortgage loans sold to third parties.
(3) Excludes approximately $3.7 billion, $2.8 billion and $2.3 billion for the years ended December 31, 2004, 2003 and 2002, respectively, of commercial, consumer, construction and other loans originated by Doral Financial but not part of the mortgage-servicing portfolio, as well as conventional mortgage loans purchased and serviced by others.
(4) Run-off refers to regular amortization of loans, prepayments and foreclosures.